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RUEHAC/AMEMBASSY ASUNCION 2881
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RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NATIONAL SECURITY COUNCIL WASHDC
RUEHC/DEPT OF LABOR WASHDC

UNCLAS SECTION 01 OF 03 SAO PAULO 000003

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STATE PASS TO USTR FOR SCRININ
STATE PASS EXIMBANK
STATE PASS USTR FOR SULLIVAN/LEZNY
DEPT OF TREASURY FOR OASIA, DAS LEE AND JHOEK
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC ALSO FOR 3134/USFCS/OIO/EOLSON/DANDERSON
STATE PASS OPIC FOR DMORONSE, NRIVERA, CMERVENNE
DOL FOR ILAB PEREZ-PKOPEZ AND WHOLEY

C O R R E C T E D C O P Y (SUBTRATED TEXT AT END OF CABLE)

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TAGS: [ECON](#) [EIND](#) [ETRD](#) [EINV](#) [BR](#)
SUBJECT: SAO PAULO BUSINESSMEN PRESS ON NEGOTIATIONS FOR A US TRADE AGREEMENT

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1. (U) SUMMARY: Members of the Brazil-U.S. Business Council, a bilateral business grouping, recently expressed lack of faith in the resumption of FTAA negotiations and demanded greater commitment from the GOB to begin negotiations for alternative mechanisms to enhance bilateral trade relations. They believe FTAA is a "dead horse" and there is urgent need to find alternative ways to increase cooperation and trade relations between Brazil and the US, the "largest single consumer market on the planet." Business leaders advocated conclusion of a bilateral tax treaty as one such measure and focused on biofuels as an area with substantial potential for future cooperation. End Summary.

2. (U) On December 5 the Brazil-U.S. Business Council held its 25th Plenary meeting at the Federation of Industries of the State of Sao Paulo (FIESP) to celebrate the Council's 30th[P1] anniversary. This event brought together prominent US and Brazilian business leaders, and future diplomats from the Rio Branco institute in Brasilia. The main topic of the meeting was on increasing trade relations between Brazil and the US, with particular emphasis placed on closer cooperation in the ethanol and bio-fuels area. All present agreed that prospects in the bio-fuels arena are enormous not only in Brazil but worldwide.

FTAA SKEPTICISM

3. (U) The majority of industry representatives expressed skepticism over a positive outcome with the stalled FTAA

negotiations, and urged Brazilian authorities to engage more seriously and vigorously in developing new initiatives to increase trade with the U.S. Rubens Barbosa, former Brazilian Ambassador and current President of the Foreign Trade Council of FIESP, defined FTAA as a "dead horse" and asked the GOB to urgently identify and negotiate alternatives for increasing trade with the U.S. especially in sectors in which Brazil is competitive.

14. (U) GE Brazil President (and current AMCHAM President) Alexandre Silva stated that FTAA is no longer a viable option due to the complicated negotiations stalling passage. According to Silva, U.S. company subsidiaries in Brazil are eager for a trade agreement, in whatever form, that will permit them to do business without obstacles in expand their exports to the US. Silva argued that although not all industrial sectors would gain from bilateral agreements with the U.S. the long term benefit for Brazil as a whole would be substantial.

NEED FOR STRONGER AND MORE DEFINED TRADE

15. (U) The President of the Brazilian side of the Brazil-U.S. Business Council and Vice President of EMBRAER, Henrique Rzezinski, said that trade relations between Brazil and the US lacked strength and definition, resulting in a proportionately modest exchange of goods given the high consumer market potential in both countries. He expressed dismay over both countries lack of perspective: Brazil's decision to give priority to South-South relations while the US concentrates on combating terrorism.

16. (U) Duke Energy Brazil President Mickey Peters noted that a bilateral trade arrangement would be the best bet for strengthening cooperation and expanding trade between the two countries. "A country like the U.S. can invest much more in Brazil. Unfortunately there are many obstacles to overcome in order to attract such investments", he said. Peters cited four points which he considered essential to attract investments: 1) capital costs and a

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predictable timetable for obtaining environmental licenses; 2) prices that will guarantee reasonable profits; 3) the creation of a strong and independent regulation agency; and 4) a fair payment for energy transmission services.

17. (U) Natal Garcia, the president of Caterpillar, brought to the table the lack of a treaty to avoid double taxation. The tax burden in Brazil is one of the highest in the world and the lack of a treaty continues to harm exports, as double taxation reduces the competitiveness of manufactured products. In addition, royalty payments and inter-company services continue to be taxed, creating multiple problems with the IRS for many companies.

OTHER OBSTACLES TO TRADE AGREEMENTS

18. (U) The President of the Brazilian Center for International Relations (CEBRI) Ambassador Jose Botafoco Goncalves expressed pessimism vis-[P2]a-vis any kind of trade negotiations with the U.S. at all, principally because it is only a remote possibility that Congress will renew the Trade Promotion Authority (TPA) that allows the executive branch to negotiate treaties with foreign countries. He recommended instead that Brazil should negotiate bilateral trade agreements with Mexico and Canada.

19. (U) Christian Lohbauer, of the Brazilian Poultry Exporters Association (ABEF) said that a Brazil-U.S. bilateral agreement would be the ideal step in increasing trade. However, he pointed out an obstacle in the form of the Mercosul agreement, which does not permit member countries to negotiate side agreements with other nations. Lohbauer lamented that during his four years in office, President Lula had done to find practical ways to increase trade with the U.S. and the EU, which are the two largest trading blocs. He criticized Brazil's current foreign policy which appears to be based on ideological inclinations and urged Itamaraty to pursue

trade agreements which are in Brazil's best economic interest.

THE PROMISE OF ETHANOL

¶10. (U) On a more positive note, Marcos Jank, from the Institute for Trade Studies and International Negotiations (ICONE) briefed participants on the Brazilian ethanol program and its prospects for the world in terms of renewable energy. He spoke at length on the country's pioneer role in the development of ethanol. "Today Brazil has a 44 percent participation in the production of renewable fuels versus 14 percent for the rest of the world", Jank observed, as he reminded the audience that Brazil also is the largest exporter of bio-fuels in the world. He concluded pointing out the two important advantages of ethanol as a renewable energy--- it causes less pollution and has a low level of carbon.

¶11. (U) Brazilian Foreign Minister Celso Amorim had commented earlier in the event on an equally positive note, stating that the relationship between Brazil and the U.S. remains extremely important and necessary, and suggested that both countries need to find "niches" or areas of interest for future cooperation. Amorim cited the ethanol and bio-fuels energy programs as a prime example for an opportunity to work together. [P3](Comment: Amorim was not physically present at the event, but delivered his comments via a televised prepared statement, and therefore did not hear the other speakers' direct criticism of his trade policies.)

¶12. (SBU) Comment: The annual meeting of the Brazil-U.S. Business Council provided an opportunity for Sao Paulo based businessmen to air their dissatisfaction with the Brazilian government's lack of movement on bilateral trade agreements. They believe the FTAA is lost, Mercosul membership structure thwarts possible bilateral trade

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agreements with the U.S., and that the Lula administration has focused too exclusively on South-South relations rather than fostering stronger relations with the U.S. and EU. This lack of focus has also resulted in continuing important internal issues not being addressed which affect trade and investment, such as the double taxation issue. The current attitude in the private sector appears to be that private business will have to begin to step up to the plate, and more aggressively lobby government to act more positively in the negotiation of fair and beneficial trade agreements. Specifically business believes that after the recent good news of the renewal of the Generalized Systems of Preferences, Brazil should seize this positive momentum to push for trade agreements with the U.S. Separately, given that Brazil shares top ranking with the US in ethanol production, is the leading exporter of ethanol and a role model in renewable bio-fuel technology, this may be the most promising point of common interest for future cooperation. [P4]End Comment.

¶13. (U) This Cable was coordinated with Embassy Brasilia.

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